Health April 16, 2018
By
Mattie Quinn
Related Condition Centers

- Oral Health

What's the Difference Between an HSA, FSA, and HRA?

Also, do you need one?

Stethoscope: Getty Images. Graphic by Cristina Cianci

Every year when it's time to sign up for health insurance, my boyfriend comes home exasperated, holding a stack of papers peppered with acronyms like HSA, FSA, and HRA. His question comes like clockwork: "What does any of this mean?"

I've been writing and reporting on health care for about five years now, so I always parse through the paperwork, patiently defining various words and phrases as best I can. I can tell him that premiums are what you get charged every month, while a deductible is the dollar amount you're responsible for before your insurance company starts chipping in (with exceptions for things like various preventive screenings, which are currently covered under the Affordable Care Act).

With all my health-care experience, though, I still find myself getting tongue-tied sometimes. Even seasoned experts get it. “The health-care system is still so confusing,” Lisa Wiegers, president of Benefit-Link Corporation, an employee benefit consultation service, tells SELF.

WATCH THIS

The Difference Between a Heart Attack, Stroke, and Cardiac Arrest

To help you out, we’re diving into one of the most baffling aspects of health insurance: the alphabet soup that is HSAs, FSAs, and HRAs. These are all tools to help you manage any unexpected or uncovered health-care costs, but they differ in a few significant ways. Here’s how to figure out which one might be right for you.

Health Savings Account (HSA)

What is an HSA? HSAs come with high-deductible health plans, which make you pay at least $1,350 for a single person or $2,700 for a family before your health insurance will cover anything. There’s also a cap on the other end; in 2018, the maximum out-of-pocket expenses for a high-deductible plan are $6,650 for a single person or $13,300 for a family.

If you have a high-deductible plan (either through your employer or the insurance marketplace), aren’t listed as a dependent on tax returns, and don’t have an FSA or HRA (with a few exceptions) you can qualify for an HSA.

How does an HSA work? You decide how much money you’d like to set aside each year, and that money will then either get taken out of your paycheck or your bank account. The maximum contribution amount for 2018 was $3,450 for an individual or $6,900 for a family plan. Your employer may also contribute to this plan.

What can I use it for? You can put money from an HSA towards a vast array of things not normally covered by insurance, like co-pays, eyewear, prescriptions, dental treatment, and even breast pumps, according to the Internal Revenue Service (IRS). You generally can't use this money for things like cosmetic surgery or insurance premiums, though the IRS does make a few exceptions, like if the cosmetic surgery is to fix an injury, if the premiums are for long-term care insurance, and a few other specific situations.

Are there any tax benefits to getting an HSA? Yup! You don't need to pay taxes on contributions to your HSA. You may also earn interest as the money sits in your account or potentially invest it in stocks and bonds—it depends on your plan.

Where does the money go if I don't use it? Similar to a 401(k), once you open an HSA, that money is yours to keep. Even if you start one through an employer plan, the money will stay with you for your entire life until you use it. "You can build up a nice little nest egg for health services for yourself," Chris Wolpert, managing member of Group Benefit Solutions, a health insurance consultant service, tells SELF.

Can I use an HSA with other savings plans on this list? HSAs generally stand alone with a few exceptions, like if you have an HSA and a limited-purpose FSA or HRA to cover things like vision care.

OK but...what's the point? So, let's say you have an insurance plan with a high deductible and low monthly premiums because you rarely get sick, go to the doctor, or have medical expenses. But you're also not super risk averse, so if something does happen, you want to make sure you're good. In this case, using an HSA to set aside some pre-tax money can help you save on any medical expenses that do come up.

Flexible Spending Account (FSA)

What is an FSA? This is typically an employer-provided savings plan that doesn't require a high deductible. FSAs aren't available to people getting insurance through the marketplace.

How does an FSA work? You decide how much money you want to contribute from your paycheck into the plan for a given year. The maximum contribution amount amount for 2018 was $2,650. Your employer might also contribute to this plan.

What can I use it for? You can use this money to pay for things your health insurance doesn't cover, like co-pays, deductibles, prescriptions, equipment like crutches and blood sugar test kits, and various other medical and dental expenses. Using it for premiums isn't allowed, though.

Are there any tax benefits to getting an FSA? The good news is that the money that goes into an FSA comes out of your paycheck before taxes, just like with an HSA. On the flip side, you can't write off your FSA on your taxes the way you can with an HSA.

Where does the money go if I don't use it? If you don't use it, you lose it. This is why you might see signs outside of places like your eye doctor encouraging you to use up your FSA before the end of the year, Adam Block, Ph.D., an assistant professor of public health at New York Medical College, tells SELF.

If you leave your job before the year is up, leftover FSA money goes back to your employer unless you have a COBRA continuation plan, which is when your employer provides temporary continuation of health coverage under certain circumstances, like if you've been let go from your job.

Even if you stay in the same job, you could stand to lose a lot of that money in a new insurance year. Your employer may offer a grace period of two and a half months after the year ends for you to use up those funds, or they might allow you to roll over up to $500 (or less, depending on your specific plan). They can only offer a grace period or a carryover, not both. That's why it's important to make sure you're not putting in a ton more money than you'll need into an FSA.

Can I use an FSA with other savings plans on this list? You generally can't have an FSA and an HSA, but you can easily have an FSA and an HRA at the same time.

OK but...what's the point? Let's say you typically spend a decent amount of medical expenses each year on things like contact lenses, prescription skincare products, and dental procedures—an FSA might be right for you. Same goes if you're anticipating some bigger medical bills this year; it could be worth asking an insurance rep how many of those expenses you could pay for with an FSA. That way, you can set aside some pre-tax money for those expenses that you know you'll have to pay anyway. Just remember: You have to use it in a given year or you'll probably lose it!

Health Reimbursement Account (HRA)

What is an HRA? HRAs are basically a way for your employer to help you pay for high health-care costs.

How do HRAs work? Let's say your deductible for the year is $3,000, but your employer is offering an HRA of $1,000. That means you'll get reimbursed up to $1,000 of your $3,000 deductible, essentially giving you a $2,000 deductible.

A lot of the specifics here are up to your employer. "If an employer needed to raise the deductible instead of hiking up premiums, but they still want their people to be protected, then it's a nice thing to offer. They also set the terms—there's no guideline for how much they can offer, and they set the reimbursement schedule," Wolpert says.

HRAs may seem similar to HSAs in that they help you pay off medical expenses, particularly when you have a high deductible to meet. But they're different in a lot of ways. While HSAs have to be paired with a high-deductible insurance plan, HRAs do not have that restriction. And unlike an HSA, your employer controls the HRA and only they can contribute money into it for medical reimbursements. Another key difference: You can use the HRA to pay for your monthly premiums, whereas you cannot do that with an HSA.

What can I use it for? This money can help you cover a variety of qualified medical and dental expenses, like co-pays, premiums, deductibles, contact lenses, teeth cleanings, and more.

Are there any tax benefits to getting an HRA? Your reimbursement won't be taxed, so you'll get the full amount.

Where does the money go if I don't use it? Your employer may decide to roll over the funds at the end of the year, or they might not. And if you leave your job, any unused money will go back to your employer.

Can I use an HRA with other savings plans on this list? You can have an HRA and an FSA at the same time. However, you might need to use the HRA first before applying any FSA money as a way of maximizing the benefits that your employer offers. Talk with your employer for specifics. You may also be able to have an HRA and HSA. Similar to having an FSA and HSA, this is only possible in a few specific instances, like if you have a high-deductible plan that doesn't cover dental work, so you decide to use an HRA for teeth cleanings.

OK but...what's the point? Let's say you just started a new job and your employer offers an HRA of $1,000 a year if you select their high-deductible plan. For some people—particularly those who were considering a high-deductible plan anyway—this can be a great deal. Other companies may offer an HRA with any plan just as an added perk. As health care costs continue to climb, employers are often having to choose between offering plans with higher deductibles or higher premiums, so they might offer an HRA to give their employees some relief.

That said, it's worth finding out when you can actually use that money. Some employers will let you use the HRA first and then make you pay anything on top of that, while others will make you pay a certain amount before the HRA starts reimbursing you.

So, which one of these might be right for you? Experts say there isn’t a right or wrong answer across the board.

You’re probably wondering if you even need any of these. The truth is that experts do encourage using them. Health-care issues—and the associated costs—can be unpredictable. Even if putting away extra money for an HSA or FSA sounds deeply uninteresting, if your employer is offering an HRA, at least take advantage of that, Wolpert says.

Beyond that, deciding on the right health savings strategy for you is a matter of studying what exactly your employer or plan is offering, considering your medical history, and figuring out what you’re comfortable contributing into a health fund. “Think of it like a math problem,” Wiegers says.

Once you’re locked into a savings plan, you should continue being proactive with your health. Sorting through all the health-care madness is no small feat; use the fact that you did as empowerment going forward. “It’s OK to ask questions,” Wiegers says. Let the medical professionals you encounter know you’re an informed, curious consumer, so you can work together as well as possible to look after your health.

Oh, also, need help remembering everything you just read? Here's a handy chart to keep it all straight.

What's the Difference Between an HSA, FSA, and HRA?

	HSA	FSA	HRA
Can anyone use it?	Only if you have a high-deductible insurance plan and meet certain criteria	Only if your employer offers it	Only if your employer offers it
Who contributes money into it?	You do, but your employer may also contribute	You do, but your employer may also contribute	Only your employer does
What happens to the money after the year is up?	It stays in the account until you use it	You lose it (with a few exceptions)	It might roll over, or you might lose it
Can you use it to pay for your monthly premiums?	No	No	Yes
What's the point?	To save pre-tax dollars for upcoming health expenses at any point in the future	To save pre-tax dollars for upcoming health expenses this year	Your employer is giving you money to help with the costs of their insurance plans

SELF